



03011428

UNITED STATES  
ID EXCHANGE COMMISSION  
Washington, D.C. 20549

## OMB APPROVAL

OMB Number: 3235-0123  
Expires: September 30, 1998  
Estimated average burden  
hours per response . . . 12.00

## SEC FILE NUMBER

8-30979

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

## FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2002 AND ENDING December 31, 2002  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

## NAME OF BROKER-DEALER:

Continental Capital Securities, Inc.

## ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

5580 Monroe St.

Sylvania

(No. and Street)

OH

(City)

(State)

43560

(Zip Code)

## NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

William Faulkner

(419) 885-7525

(Area Code — Telephone No.)

## B. ACCOUNTANT IDENTIFICATION

## INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Mira + Kolena, Ltd.

(Name — if individual, state last, first, middle name)

4841 Monroe St., Suite 350

Toledo

OH

43623

(Address)

(City)

(State)

(Zip Code)

## CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 18 2003

FOR OFFICIAL USE ONLY

THOMSON  
FINANCIAL

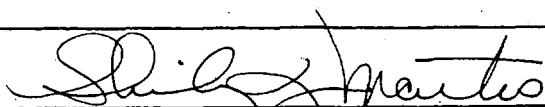
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (3-91)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

## OATH OR AFFIRMATION

I, Shirley J. Martis, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Continental Capital Securities, Inc., as of December 31, ~~19~~2002, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Shirley J. Martis  
Vice President

Title



~~Notary Public~~  
PATRICIA A. FISCHER  
Notary Public, State of Ohio  
Commission Expires 4/3/07

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of ~~Changes in Financial Condition~~ Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditors' report on internal accounting control.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**Continental Capital Securities, Inc.**

**Financial Statements  
and Supplemental Information**

**For the Year Ended December 31, 2002**

**Table of Contents**

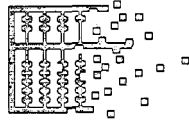
|                                   |   |
|-----------------------------------|---|
| Independent Auditors' Report..... | 1 |
|-----------------------------------|---|

**Audited Financial Statements**

|   |   |
|---|---|
| Statement of Financial Condition .....  | 2 |
| Statement of Operations .....   | 3 |
| Statement of Cash Flows .....   | 4 |
| Statement of Changes in Stockholders' Equity .....                                    | 5 |
| Statement of Changes in Liabilities Subordinated to Claims of General Creditors ..... | 6 |
| Notes to Financial Statements.....  | 7 |

**Supplemental Information**

|   |    |
|---|----|
| Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission .....                            | 11 |
| Computation For Determination of Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission ..... | 12 |
| Independent Auditors' Report on Internal Control .....  | 13 |



# MIRA+KOLENA

Charles J. Mira, J.D., CPA  
Thomas E. Kolena, CPA/ABV

Certified Public Accountants & Consultants

Mira+Kolena, Ltd.  
4841 Monroe Street  
Suite 350  
Toledo, Ohio 43623

419-474-5020  
419-474-5072 Fax  
mk@mirakolena.com

Member of:  
American Institute  
of Certified Public  
Accountants

Ohio Society of  
Certified Public  
Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Continental Capital Securities, Inc.

We have audited the accompanying statement of financial condition of Continental Capital Securities, Inc. as of December 31, 2002, and the related statements of operations, changes in stockholders' equity, cash flows, and changes in liabilities subordinated to claims of general creditors for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Continental Capital Securities, Inc. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Mira & Kolena, Ltd.*

Toledo, Ohio  
January 31, 2003

**Continental Capital Securities, Inc.**

**Statement of Financial Condition**

**December 31, 2002**

**Assets**

Current assets:

|  |               |
|--|---------------|
| Cash and cash equivalents                            | \$ 35,237     |
| Prepaid expenses, including prepaid taxes of \$3,700 | 5,814         |
| Total current assets                                 | <u>41,051</u> |

Property and equipment:

|                               |              |
|-------------------------------|--------------|
| Equipment                     | 18,374       |
| Less accumulated depreciation | 17,346       |
| Net property and equipment    | <u>1,028</u> |

Other assets:

|                    |              |
|--------------------|--------------|
| Deposits           | 4,349        |
| Investment         | 3,300        |
| Total other assets | <u>7,649</u> |

|              |                         |
|--------------|-------------------------|
| Total assets | <u><u>\$ 49,728</u></u> |
|--------------|-------------------------|

**Liabilities and Stockholders' Equity (Capital Deficiency)**

|                           |           |
|---------------------------|-----------|
| Subordinated note payable | \$ 75,000 |
|---------------------------|-----------|

Stockholders' equity (capital deficiency):

|  |                         |
|--|-------------------------|
| Class A common stock, par value \$.50 per share; 20,000<br>shares authorized and outstanding       | 10,000                  |
| Class B common stock, par value \$.50 per share; 80,000<br>shares authorized, 79,000 shares issued | 39,500                  |
| Paid-in capital  | 27,513                  |
| Retained earnings  | (97,285)                |
|  | <u>(20,272)</u>         |
| Treasury stock, at cost, 4,000 Class B common shares   | <u>(5,000)</u>          |
| Total stockholders' equity (capital deficiency)  | <u>(25,272)</u>         |
| Total liabilities and stockholders' equity (capital deficiency)                                    | <u><u>\$ 49,728</u></u> |

See accompanying notes to financial statements.

**Continental Capital Securities, Inc.**

**Statement of Operations**

**Year Ended December 31, 2002**

|                                      |                            |
|--------------------------------------|----------------------------|
| Revenues                             | \$ -                       |
| Expenses:                            |                            |
| Bad debts                            | 124,919                    |
| Professional fees                    | 13,595                     |
| Regulatory fees                      | 1,140                      |
| Depreciation                         | 290                        |
| Miscellaneous                        | 3,632                      |
| Total expenses                       | <u>143,576</u>             |
| Loss before income taxes             | (143,576)                  |
| Provision (credit) for income taxes: |                            |
| Federal:                             |                            |
| Current                              | (2,987)                    |
| Deferred                             | 12,000                     |
|                                      | <u>9,013</u>               |
| Net loss                             | <u><u>\$ (152,589)</u></u> |

See accompanying notes to financial statements.

**Continental Capital Securities, Inc.**

**Statement of Cash Flows**

**Year Ended December 31, 2002**

**Cash flows from operating activities:**

|   |                         |
|---|-------------------------|
| Net loss  | \$(152,589)             |
| Adjustments to reconcile net loss to net cash flows used in operating activities: |                         |
| Provision for bad debts   | 124,919                 |
| Provision for deferred federal taxes  | 12,000                  |
| Depreciation  | 290                     |
| Changes in assets and liabilities:  |                         |
| Accounts receivable   | (72,725)                |
| Prepaid expenses  | 11,983                  |
| Deposits  | 25,000                  |
| Accounts payable  | (26,535)                |
| Income taxes  | (10,772)                |
| Accrued liabilities   | (53,270)                |
| Net cash used in operating activities   | <u>(141,699)</u>        |
| Decrease in cash and cash equivalents   | (141,699)               |
| Cash and cash equivalents at beginning of period                                  | <u>176,936</u>          |
| Cash and cash equivalents at end of period  | <u><u>\$ 35,237</u></u> |
| <b>Supplemental cash flow disclosure:</b>   |                         |
| Cash paid to parent company during the year for income taxes                      | <u><u>\$ 11,088</u></u> |

See accompanying notes to financial statements.

**Continental Capital Securities, Inc.**

**Statement of Changes in Stockholder's Equity**

**Year Ended December 31, 2002**

|                              | Class A<br>Common<br>Stock | Class B<br>Common<br>Stock | Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Total<br>Stockholders'<br>Equity<br>(Capital Deficiency) |
|------------------------------|----------------------------|----------------------------|--------------------|----------------------|-------------------|--|
| Balance at December 31, 2001 | \$ 10,000                  | \$ 39,500                  | \$27,513           | \$ 55,304            | \$ (5,000)        | \$ 127,317   |
| Net loss                     |                            |                            |                    | (152,589)            |                   | (152,589)  |
| Balance at December 31, 2002 | <u>\$ 10,000</u>           | <u>\$ 39,500</u>           | <u>\$27,513</u>    | <u>\$ (97,285)</u>   | <u>\$ (5,000)</u> | <u>\$ (25,272)</u>                                       |

See accompanying notes to financial statements.



**Continental Capital Securities, Inc.**

**Statement of Changes in Liabilities Subordinated to  
Claims of General Creditors**

**Year Ended December 31, 2002**

Balance at December 31, 2001 and December 31, 2002

\$ 75,000

See accompanying notes to financial statements.

## **Continental Capital Securities, Inc.**

### **Notes to Financial Statements**

**December 31, 2002**

#### **1. Summary of Significant Accounting Policies**

##### **Nature of Business and Ownership**

Continental Capital Securities, Inc. (the "Company") is a broker-dealer registered with the Securities and Exchange Commission. The Company is a 100% owned subsidiary of Continental Capital Corporation, a holding company of several financial services-related businesses. Continental Capital Corporation operates five principal lines of business through its subsidiaries, including general securities brokerage, investment banking, investment management, financial advisory and business consulting. The Company's customer base is located throughout the Midwest region.

During 2001, the Company changed its year-end to December 31 from February 28, effective December 31, 2001. Accordingly, these financial statements include the results of operations and changes in cash flows and stockholder's equity for the ten month period ended December 31, 2001. In December 2001, the Company transferred all of its registered representatives and four branch offices to Continental Capital Investment Services, Inc. (formerly Sky Investments, Inc.), effective January 1, 2002, with the approval of the National Association of Securities Dealers. With this change, the Company's only business activity is the private placement of securities and the minimum net capital requirement is reduced to \$5,000 (see Note 5).

##### **Use of Estimates**

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used as a basis for these financial statements.

##### **Investment**

The Company owns 300 warrants in The NASDAQ Stock Market, Inc., a privately owned company. The investment is accounted for using the cost method.

##### **Revenue Recognition**

The Company records commission revenue and expense on a trade date basis.

##### **Property and Equipment**

Property and equipment is carried at cost. Depreciation is recorded on the straight-line basis at rates based on estimated useful lives of the properties.

##### **Concentration of Credit Risk**

The Company maintains cash deposits in financial institutions which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation. The maximum loss that would have resulted from that risk is the excess of the deposits reported by the banks over the amounts that would have been covered by federal insurance. The Company has not experienced any losses and believes it is not exposed to any significant credit risk related to cash deposits.

**Continental Capital Securities, Inc.**

**Notes to Financial Statements - continued**

**December 31, 2002**

**2. Income Taxes**

The federal income tax provision differs from the amount computed under the statutory rates in 2002 due principally to certain expenses which are not deductible for federal income tax purposes. Deferred income taxes are recorded using the asset and liability approach to recognize assets and liabilities for expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. At December 31, 2002, deferred income taxes are related to the following:

|                                       |                 |
|---------------------------------------|-----------------|
| Deferred income tax assets:           |                 |
| Allowance for doubtful accounts       | \$ 28,400       |
| Charitable contributions carryforward | 3,100           |
| Total deferred income tax assets      | <u>31,500</u>   |
| Valuation allowance                   | <u>(31,500)</u> |
| Net deferred income tax asset         | <u>\$ -</u>     |

Since the ultimate realization of net deferred income tax assets is dependent upon the generation of taxable income, among other things, net deferred tax assets has been reduced by a valuation allowance of \$31,500 at December 31, 2002.

**3. Subordinated Note Payable**

The Company has borrowed \$75,000 from Continental Capital Corporation under a non-interest bearing note payable. This obligation is due March 2004 and is subordinated to the claims of general creditors. It also has been approved as capital for the purpose of compliance with the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1) by the National Association of Securities Dealers.

**4. Related Party Transactions**

The Company makes and receives advances to companies affiliated through common ownership. During 2002, the Company made net advances of \$124,919 to Continental Capital Corporation and a corresponding allowance was recorded.

The Company utilizes an office facility and furniture and equipment from companies affiliated through common ownership.

**5. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital of \$5,000 at December 31, 2002 and requires that the ratio of aggregate indebtedness to net capital, as defined under the above regulation, shall not exceed 15 to 1. The Company had net capital of \$30,237 and no aggregated indebtedness at December 31, 2002.

**Continental Capital Securities, Inc.**

**Notes to Financial Statements - continued**

**December 31, 2002**

**6. Common Stock**

The Company and its shareholders have entered into a Close Corporation Agreement which provides the shares of common stock must be offered to the Company and then to existing shareholders prior to any sale to a party outside this group. The Agreement provides that the Company or the existing shareholders have the option to purchase the securities at the offer price of the selling shareholder or at a price based on a formula, as defined in the Agreement. The Agreement also provides that the cash payment upon sale of common stock must be at least 20% of the total price with the unpaid balance paid over 60 months plus interest at the prime rate, up to a maximum rate of 10%.

**7. Contingencies**

The Company has various pending or threatened claims relating to various financial transactions involving current and former registered representatives arising in the ordinary course of business. Management believes that the Company is not responsible for any losses and plans to vigorously defend its actions. In addition, management believes that the ultimate liability, if any, with respect to these actions will not have an adverse material effect on the Company's financial statements, after consideration of certain assets of other parties controlled by the Company which can be used to offset any costs and expenses related to the lawsuits and available insurance coverage.

## **SUPPLEMENTAL INFORMATION**

**Continental Capital Securities, Inc.**

**Computation of Net Capital  
Under Rule 15c3-1 of the Securities and Exchange Commission**

**December 31, 2002**

|   |                         |
|---|-------------------------|
| Net capital:  |                         |
| Total stockholders' equity  | \$ (25,272)             |
| Add - subordinated note payable   | <u>75,000</u>           |
|   | 49,728                  |
| Deductions of nonallowable assets:  |                         |
| Prepaid expenses  | 5,814                   |
| Net property and equipment  | 1,028                   |
| Investment  | 3,300                   |
| Other   | <u>4,350</u>            |
|   | 14,492                  |
| Other deductions - deductible amount of surety bond   | <u>5,000</u>            |
| Total deductions  | <u>19,492</u>           |
| Net capital   | <u><u>\$ 30,237</u></u> |
| Aggregate indebtedness  | <u><u>\$ -</u></u>      |
| Computation of basic net capital - minimum net capital required                                       | <u><u>\$ 5,000</u></u>  |
| Excess net capital  | <u><u>\$ 25,237</u></u> |
| Ratio - aggregate indebtedness to net capital   | <u><u>-</u></u>         |
| Reconciliation with Company's computation (included in<br>Part II of Form X-17A-5 as of December 31): |                         |
| Net capital as reported in Company's Part II (unaudited)  | \$ 19,356               |
| Decrease in accounts payable  | 10,771                  |
| Decrease in deductible amount of surety bond  | 110                     |
| Net capital per above   | <u><u>\$ 30,237</u></u> |

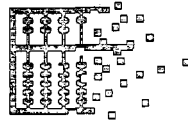
---

**Continental Capital Securities, Inc.**

**Computation For Determination of  
Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission**

**December 31, 2001**

Continental Capital Securities, Inc. claims exemption from Rule 15c3-3 pursuant to subparagraph (k)(2)(ii) because the Company does not carry customer accounts as the Company clears all transactions with and for customers on a fully disclosed basis with a clearing broker.



# MIRA+KOLENA

Charles J. Mira, J.D., CPA  
Thomas E. Kolena, CPA/ABV

Certified Public Accountants & Consultants

Mira+Kolena, Ltd.  
4841 Monroe Street  
Suite 350  
Toledo, Ohio 43623

419-474-5020  
419-474-5072 Fax  
mk@mirakolena.com

Member of:  
American Institute  
of Certified Public  
Accountants

Ohio Society of  
Certified Public  
Accountants

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Board of Directors  
Continental Capital Securities, Inc.

In planning and performing our audit of the financial statements of Continental Capital Securities, Inc. for the year ended December 31, 2002, we considered its internal control structure, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures followed by Continental Capital Securities, Inc. that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making quarterly securities examinations, counts, verifications and comparisons and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment of securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodian functions related to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in internal control that might be a material weakness under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts



Board of Directors  
Continental Capital Securities

Page 2

that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002 to meet the SEC's objectives.

The report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not and should not be used for any other purpose.

*Mira + Kolena, LLC*

Toledo, Ohio  
January 31, 2003